REPORT OF EXAMINATION

OF

UNITED HEALTHCARE OF ALABAMA, INC.

AS OF

DECEMBER 31, 2004

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STATE OF GEORGIA
COUNTY OF COBB

Rebecca Belanger-Walkins, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

THAT an examination was made of the affairs and financial condition of UNITED HEALTHCARE OF ALABAMA, INC., for the period from January 1, 2002 through December 31, 2004;

THAT the following 54 pages constitute the report to the Commissioner of Insurance of the State of Alabama; and

THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.

Rebecca Belanger-Walkins

Rebecca J. Belanger-Walkins, CFE
(Examiner-In-Charge)

Subscribed and sworn to before the undersigned authority this 7th day of June 2006.

Kirsten Aurens
(Signature of Notary Public)

Kirsten Aurens, Notary Public
(Print Name of Notary Public)

Notary Public, Cobb County, Georgia
My Commission Expires August 3, 2008

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
FINANCIAL/EXAMINATION DIVISION
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REYN NORMAN

BOB RILEY
GOVERNOR

June 7, 2006

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions of the National Association of Insurance Commissioners, an examination as of December 31, 2004, has been made of the affairs, financial condition, and market conduct of **United HealthCare of Alabama, Inc.** at its executive branch office located at 5901 Lincoln Drive, Edina, Minnesota 55436. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate United HealthCare of Alabama, Inc.

SCOPE OF EXAMINATION

The Company was last examined for the two-year period ended December 31, 2001. The current examination covers the three-year period from January 1, 2002 through December 31, 2004, and was conducted by examiners representing the State of Alabama Department of Insurance. Where deemed appropriate, transactions subsequent to December 31, 2004, were reviewed.

The Company was examined in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures promulgated by the National Association of Insurance Commissioners (NAIC); and in accordance with generally accepted examination standards.

The discussion of assets and liabilities contained in this report has been confined to those items which indicated a violation of the Alabama Insurance Code, the Insurance Department's rules and regulations, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to have valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2004. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

The market conduct portion of the examination consisted of a review of the Company's territory, plan of operation, policy forms, rates and underwriting practices, advertising and marketing, treatment of policyholders and claimants, and compliance with agents' licensing requirements.

ORGANIZATION AND HISTORY

The information contained in this section of the examination report was excerpted from prior examination reports and updated as appropriate.

The Company was founded in April 1985, as a joint venture between the Medical Advancement Foundation, an affiliate of the University of Alabama Health Sciences Foundation, and certain individual businessmen. Under the laws of the State of Alabama, the Company was incorporated on July 16, 1985, as "Complete Health, Inc.," a for-profit health maintenance organization (HMO).

On November 15, 1989, with the approval of the Alabama Department of Insurance, the shareholders of the Company transferred their stock to United HealthCare South, Inc. (formerly known as Complete Health Services, Inc.), thereby making the Company a wholly-owned subsidiary of United HealthCare South, Inc. (UHC-South).

A change in the ultimate control of the Company occurred in May of 1994, when UHC-South, the parent, merged with United HealthCare Corporation (UHCorp). On April 30, 1996, United HealthCare Services, Inc. (UHS), an HMO management corporation and a wholly-owned subsidiary of UHCorp, purchased UHC-South for its net book value from UHCorp. UHS became the sole shareholder of UHC-South.

Effective May 1, 1996, the name of the Company was changed from "Complete Health, Inc." to the current "United HealthCare of Alabama, Inc." Also on that date, the Company's wholly-owned subsidiary, Complete Health of Alabama, Inc., changed its name to "United HealthCare of Alabama-FQ, Inc." (UHC AL-FQ).

On January 2, 1998, UHC-South merged into UHS, whereby UHS became the sole shareholder of the Company.

On December 31, 1998, UHC AL-FQ merged into the Company, with the Company being the surviving entity. Since the Company and UHC AL-FQ were under common control, the transaction was accounted for as a "pooling of interest."

As of June 30, 2000, UHS contributed its common stock of the Company to United HealthCare, Inc.

At December 31, 2004, the Company's Annual Statement reflected outstanding capital stock totaling $121,978, which consisted of 927,074 shares of common stock of $.11 par value and 2,000,000 shares of $.01 par value preferred stock.

In addition to the capital stock, the Company reported $17,561,870 of gross paid in and contributed surplus, $41,307,833 of unassigned funds (surplus) and $(56,250) of treasury stock.

MANAGEMENT AND CONTROL

Stockholders

The Company's Articles of Incorporation authorized the Company to issue 927,074 shares of common stock at a par value of $0.11 per share and 2,000,000 shares of preferred stock at a par value of $0.01 per share. As of December 31, 2004, 927,074 shares of common stock and 2,000,000 shares of preferred stock were issued to the Company's sole shareholder, United Healthcare, Inc.

Board of Directors

The By-Laws of the Company provided that the business and affairs of the Company shall be managed by the Board of Directors which number shall be not less than five nor more than seventeen.

On March 3, 2004, the following directors were elected in a written action in lieu of the annual meeting of the sole shareholder, and were serving as of December 31, 2004:

Name/Residence	Principal Affiliation
Amy K. Knapp Key Biscayne, Florida	Chief Executive Officer Southeast Market UnitedHealthcare
T. David Lewis Montgomery, Alabama	Chairman, President and CEO UnitedHealthcare- Gulf States
David J. Lubben Delano, Minnesota	General Counsel UnitedHealth Group
Robert J. Sheehy	Chief Executive Officer

Edina, Minnesota	UnitedHealthcare
David S. Wichmann Edina, Minnesota	President, Chief operating Officer UnitedHealthcare

Officers

Officers elected by a written action in lieu of an annual meeting of the Board of Directors, and serving at December 31, 2004, were as follows:

Officers	Title
T. David Lewis	Chairman, President and Chief Executive Officer
Robert W. Oberrender	Treasurer
Michael J. McDonnell	Secretary
Timothy G. Caron	Assistant Secretary
David J. Lubben	Assistant Secretary
Juanita V. Bolland Luis	Assistant Secretary
Mary L. Stanislav	Assistant Secretary
John William Kelley	Vice President, Tax Services
Larry B. Amacker, M.D.	Senior Medical Director
Karen LaFrence Erickson	Vice President-Finance & Assistant Treasurer
George L. Mikan, III	CFO and Assistant Treasurer
David S. Wichmann	Vice President and Assistant Treasurer

Committees

As of December 31, 2004, the Company's board of directors had not established any committees.

Conflict of Interest

The Company had an established procedure for the disclosure of any outside interests, memberships, associations and/or affiliations an individual may have as a director, officer and/or key management personnel. The Conflict of Interest Policy was established in the By-Laws.

Annually, completed questionnaires are reviewed and approved by the Board of Directors. A review of the statements signed during the examination period did not disclose any conflicts. It was noted that all of the directors and officers

served as an officer and/or director of various entities affiliated with the Company's parent, United Healthcare, Inc.

CORPORATE RECORDS

The Company's Certificate of Incorporation and By-Laws (restated May 26, 1998) were inspected and found to provide for the operation of the Company in accordance with usual corporate practices.

Records of the meetings and actions of the Stockholder, Board of Directors, since December 31, 2004, were reviewed.

There were no changes to the Company's Certificate of Incorporation or By-Laws during the three-year examination period.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Registration

The Company is not subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE §27-29-1 (1975), except as expressly required by other statutes and regulations. Generally, health maintenance organizations are subject to regulation in regard to changes in control, but are not subject to the registration and continuing holding company reporting requirements that apply to insurance companies.

The Company is a wholly owned subsidiary of UnitedHealthcare, Inc., a Delaware holding company. The Company is also an indirect wholly owned subsidiary of United HealthCare Services, Inc., which is a Minnesota healthcare management company and is wholly owned by UnitedHealth Group Incorporated, a Minnesota holding company.

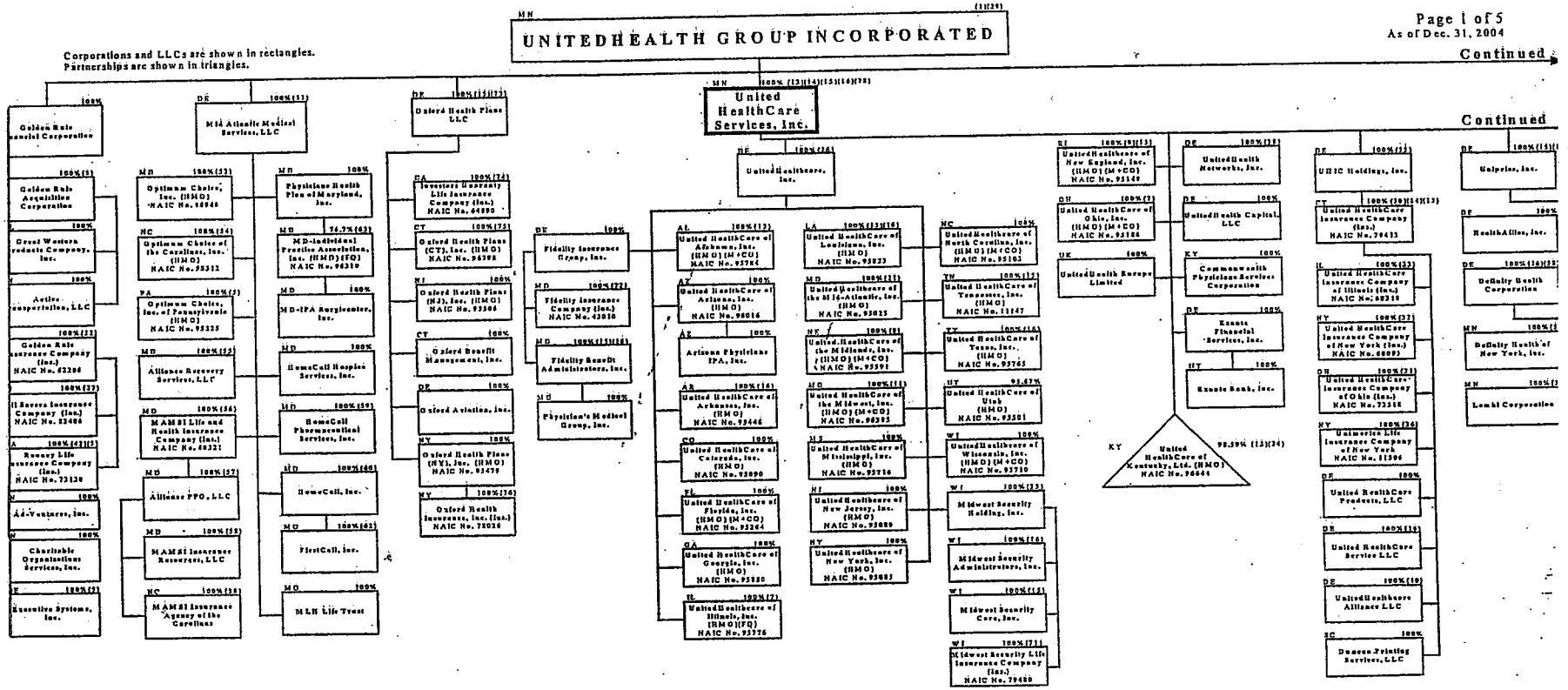
A detailed description of the various corporate changes since the Company's inception may be found under the heading "ORGANIZATION AND HISTORY," in this report.

Organizational Chart

The following chart presents the identities of and inter-relationships among all affiliated persons within the Insurance Holding Company System at December 31, 2004.

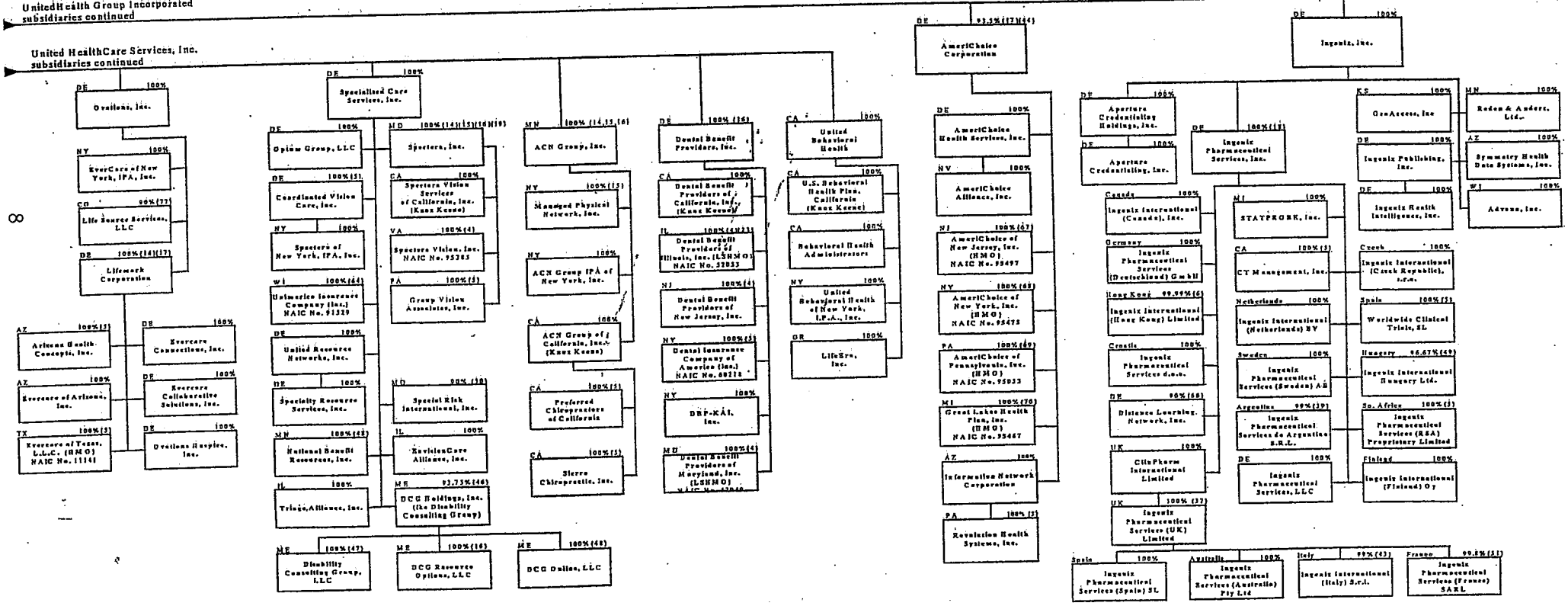
UNITEDHEALTH GROUP INCORPORATED

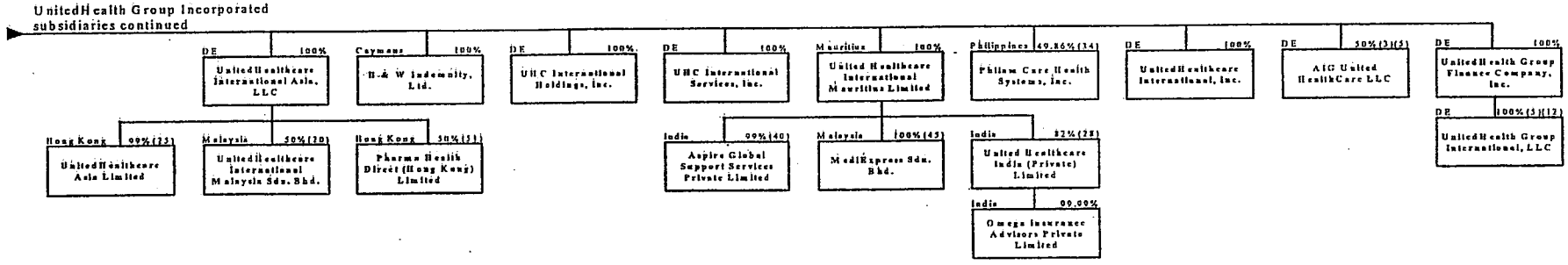
Corporations and LLCs are shown in rectangles.
Partnerships are shown in triangles.



Continued

UnitedHealth Group Incorporated
subsidiaries continued




UnitedHealth Group Incorporated
subsidiaries continued
DE
100%
UnitedHealthcare International Asia, LLC
Cayman
100%
H & W Indemnity, Ltd.
DE
100%
UHC International Holdings, Inc.
DE
100%
UHC International Services, Inc.
Mauritius
100%
United Healthcare International Mauritius Limited
Philippines
49.86% (14)
Philam Care Health Systems, Inc.
DE
100%
UnitedHealthcare International, Inc.
DE
50% (3)(5)
AIG United HealthCare LLC
DE
100%
UnitedHealth Group Finance Company, Inc.
DE
100% (3)(12)
UnitedHealth Group International, LLC
Hong Kong
99% (13)
UnitedHealthcare Asia Limited
Malaysia
50% (20)
UnitedHealthcare International Malaysia Sdn. Bhd.
Hong Kong
50% (31)
Pharma Health Direct (Hong Kong) Limited
India
99% (40)
Aspire Global Support Services Private Limited
Malaysia
100% (45)
MediExpress Sdn. Bhd.
India
82% (28)
United Healthcare India (Private) Limited
India
99.99%
Omega Insurance Advisors Private Limited

(1) **UnitedHealth Group Incorporated** ("UHG") (d/b/a UnitedHealth Group) is a Minnesota corporation whose shares of common stock are listed on the NYSE (i.e., it is publicly held). Name was changed from United HealthCare Corporation on March 6, 2000. It only does business in MN. It is the ultimate parent company of all the other UnitedHealth Group entities. It is not licensed as anything, i.e., it is not an Health Maintenance Organization (HMO), insurance company, Third Party Administrator (TPA), Preferred Provider Organization (PPO), etc. It is a holding company. It should not be the party to any contract except for certain limited situations. This is not the entity that (i) manages or directly owns the HMOs (that is, for the most part, United HealthCare Services, Inc. "UHS" for management and UHS or UnitedHealthcare, Inc. for ownership), or (ii) offers the PPO or other products (that is United HealthCare Insurance Company).
(2) d/b/a: Western Ohio Health Care Corporation; also licensed in Kentucky.
(3) 50% is held by American International Group, Inc.
(4) Limited or single service health Plan ("LSHMO"). Spectera Vision, Inc. is licensed as LSHMO in VA and IN.
(5) This entity will dissolve or merge with another UHG legal entity, subject to any required regulatory approval.
(6) Ingenix, Inc. owns .01%. Established a representative office in Beijing, China.
(7) United HealthCare of Illinois, Inc. (DE domicile) merged into United Healthcare (Newco), Inc. (IL domicile) in order to redomesticate to IL and changed its name to United Healthcare of Illinois, Inc. effective 5/31/02. Also licensed in Indiana.
(8) Licensed in Iowa and Nebraska.
(9) Licensed in Rhode Island and Massachusetts.
(10) United Healthcare of Minnesota, Inc. merged into United Healthcare Alliance LLC effective 12/31/02. This LLC holds the intangible assets of United Healthcare and is the employer of its top management.
(11) Licensed in Missouri, Illinois and Kansas.
(12) Withdrew from Hong Kong in 2004 and closed its UK branch.
(13) **United HealthCare Services, Inc.** ("UHS") (formerly UHC Management Company, Inc. and before that Charter Med, Inc.) is a Minnesota corporation and wholly owned subsidiary of UnitedHealth Group. It is the technical employing entity (i.e., it files the payroll taxes in the 50 states) for substantially all UnitedHealth Group personnel. It is qualified to do business in all 50 states, the District of Columbia and Puerto Rico. It is not licensed as an HMO or an insurance company but is

licensed in several states as a TPA or Utilization Review (UR) agent. It is the management company for almost all the health plans and the insurance companies. It owns most of the assets (i.e., desks, computers etc.) used by all employees. It rents most of the space used by all UnitedHealth Group entities and people. Many of the specialty businesses, i.e., Evercare, URN, Optum, Uniprise, Healthmarc, etc., are divisions of UHS, rather than separate legal entities (though there may be a shell bearing a similar name). UHS is the entity that should be the party to the facilities, supply or other contracts that are for UnitedHealth Group generally. See p. 5 for UHS' assumed/fictitious names.

(14) Licensed as a PPO or Managed Care Organization (MCO) in one or more states.

(15) Licensed as a UR Agent in one or more states.

(16) Licensed as a TPA in one or more states. (Called "independent adjuster" in New York.)

(17) "AmeriChoice" is being filed as an assumed name for Lifemark Corporation in California, Indiana, and Michigan. See next page for its UHS filings.

(18) Also has dba of: i3 Research

(19) Also has dba of: Care Programs

(20) Other 50% is owned by UnitedHealthcare Asia Limited currently, but United Healthcare International Asia, LLC will own 99% and United Healthcare Asia Limited will own 1% after additional shares are issued.

(21) Also licensed in Virginia and the District of Columbia. United HealthCare of Virginia, Inc. merged into it effective 12/31/01 on approval of VA Bureau of Insurance (BOI), Maryland Insurance Administration (MIA), & Maryland Department of Assessments and Taxation (MD DAT) (later filing by VA Corp.Comm.).

(22) Licensed as a life and health insurance company in AL, AK, AZ, AR, CA, CO, CT, DE, DC, FL, GA, GU, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI, & WY.

(23) d/b/a: DICA, Inc. in Texas.

(24) General partnership interest held by UHS and Commonwealth Physician Services Corporation. UHS also holds over 99% of the limited partnership interests – only one outside limited partnership unit left. Licensed as an HMO in Kentucky and Indiana. Has to use the name United HealthCare of Kentucky, L.P. in Indiana.

(25) A Hong Kong "private" limited liability company owned 99% by United Healthcare International Asia, LLC and 1% by United Healthcare International, Inc.

(26) d/b/a: United Healthcare, Inc., a Corporation of Delaware (obtained for use in Oklahoma).
(27) Licensed as a life and health insurance company in AK, AR, CO, DE, DC, FL, GA, ID, IL, IN, IA, KS, KY, LA, MD, MI, MS, MT, NE, ND, OH, OK, OR, PA, SC, SD, TN, TX, WV, WI & WY.
(28) 18% owned by Nimish Parekh, a resident of India.
(29) UHG is the sole member of the United Health Foundation, a MN non-profit organization.
(30) **United HealthCare Insurance Company** ("UHI") is a Connecticut domestic life & health insurance company that is licensed as an insurance company in 49 states (not New York), District of Columbia , Puerto Rico, Guam and the Virgin Islands. This entity offers a variety of products including Exclusive Provider Organization (EPO), PPO, Administrative Services Only (ASO)/self-funded and indemnity.
(31) Licensed in Ohio only.
(32) Licensed in New York and the District of Columbia.
(33) Licensed in Illinois only. Voluntarily surrendered COA in Florida.
(34) PhilamCare Health Systems, Inc. is 49.86% owned by PhilamLife and .28% owned by various individuals.
(35) Formerly known as R.W. Houser, Inc.
(36) Licensed in NY for life, annuities, and accident & health. Formerly named United HealthCare Life Insurance Company of New York.
(37) Branches in Republic of South Africa and Germany. Withdrew from Sweden on April 19, 2002, Hungary on Jan. 2, 2001, and the Netherlands on December 31, 2003.
(38) Assumed names for UnitedHealth Networks, Inc. that must be used in the states listed below: NH (UHN UnitedHealth Networks), TX (UHN UnitedHealth Networks, Inc.), NY (United Networks), OH & OR (UnitedHealth Network, Inc., a Corporation of Delaware)
(39) Ingenix Pharmaceutical Services (UK) Limited owns 1%.
(40) United Healthcare International, Inc. owns remaining 1%.
(41) BMJ Publishing Group Limited owns 50%.
(42) Licensed as a life and health insurance company in CA & IL.
(43) One percent owned by ClinPharm International Ltd.
(44) Around 6.5% of the shares are owned by AmeriChoice management, which United will acquire after five years from Sept. 2002 acquisition, subject to certain acceleration events. AmeriChoice has the following inactive affiliate that will be merged or dissolved as soon as practicable: AmeriChoice Behavioral Healthcare, Inc.
(45) 49% owned directly and 51% controlled through individual nominee shareholders from whom we have powers of attorney.

(46) 6.25% owned by Pamela J. Saunders (subject to redemption rights by Specialized Care Services (SCS), which will soon be exercised)
(47) Licensed as a reinsurance intermediary in some states
(48) Licensed as a producer in most states.
(49) 3.33% held by Ingenix Pharmaceutical Services, Inc.
(50) 10% owned by various members of the Koch family
(51) The remaining 50% is owned by Micah Zimmerman, a U.S. citizen
(52) Mid Atlantic Medical Services, Inc. merged into Mid Atlantic Medical Services, LLC (formerly MU Acquisition LLC) upon acquisition by UnitedHealth Group, with Mid Atlantic Medical Services, LLC as the survivor. It also has the Homecall Hospice Services Foundation, Inc.
(53) Licensed as an HMO in DC, DE, MD, VA, & WV
(54) Licensed as an HMO in NC & SC
(55) Licensed as a Collection Agency in several states
(56) Licensed as a life, accident & health insurance company in AL, AR, AZ, CO, DC, DE, GA, HI, ID, IL, IN, KS, KY, LA, MD, MS, MO, NE, NV, NM, NC, ND, OK, PA, SC, SD, TN, TX, UT, VA, & WV
(57) Licensed as a PPO in MD
(58) Licensed as a Producer in several states
(59) Licensed as a Hospice in MD & VA
(60) Licensed as a Pharmacy in many states
(61) JCAHCO; Medicare certification; licensed in MD for nursing, home health aides, physical, occupational & speech therapy, medical social work, home health, & laboratory
(62) JCAHCO, licensed in MD for residential service, agency skilled nursing & aides, and home health services
(63) 23.3% owned by Mid Atlantic Medical Services, LLC. Licensed as an HMO in DC, MD, & VA
(64) Licensed as a life, accident & health insurance company countrywide, except in NH (expect in 1st Quarter 2005), NY(Unimerica Life Insurance Company of New York is licensed instead), & TN
(65) Former name was Unimerica, Inc.
(66) 10% owned by Eric Porterfield, Mark Shelow, and Anthony Cepullio
(67) Licensed as an HMO in NJ
(68) Licensed as an HMO in NY
(69) Licensed as an HMO in PA
(70) Licensed as an HMO in MI
(71) Licensed as a life, accident & health insurance company in AK, AR, AZ, CO, DE, IA, ID, IL, IN, KS, KY, LA, MI, MN, MO, MS, ND, NE, NM, NV, OH, OK, OR, SC, SD, TX, UT, WA, & WI

(72) Licensed as an accident & health insurance company in DC, MD (health only), & PA

(73) Survivor of merger with Oxford Health Plans, Inc. Former name was Ruby Acquisition, LLC. NAIC Group Code of regulated subsidiaries was 1182 prior to acquisition. Three non-stock Political Action Committees: Oxford Health Plans, Inc. Committee for Quality Health Care, Inc., Oxford Health Plans, Inc. (CT) Committee for Quality Health Care, Inc., and Oxford Health Plans, Inc. (NY) Committee for Quality Health Care, Inc., all DE corps.

(74) Licensed in 47 states and the District of Columbia. Not licensed in CT, NY, or VT.

(75) Licensed as a Health Care Center (HMO) in CT with a Limited License for less than 5,000 members in RI.

(76) Licensed as an insurance company in CT, NH, NJ, NY, & PA.

(77) 5% owned by Jay Analovitch Trust and 5% owned by Donna Analovitch Trust

(78) United HealthCare Services, Inc.'s filed assumed names/dbas include (continuation of footnote 13):

- AmeriChoice (FL, IL, MD, NE, RI)
- Center for Health Care Policy and Evaluation (MN)
- Charter HealthCare, Inc. (NM, RI)
- Employee Performance Design (IL, KY, MN, NE, OR)
- EverCare (AZ, CA, CO, FL, GA, IL, IN, MD, MA, MI, MN, OH, PA)
- GenCare PPO (IL, MO)
- Health Professionals Review (ME)
- HealthCare Evaluation Services (MN)
- Healthmarc (AZ, CA, GA, IN, IA, KY, ME, MD, MI, MN, MO, NV, NH, NJ, NC, RI, TN, TX, VA)
- Healthmarc, Inc. (WV)
- HealthPro (AK, CT, IL, KY, MA, OH)
- Institute for Human Resources (FL, OR, WA)
- Managed Care for the Aged (MN)
- Optum (MN, CA)
- Personal Decision Services (MN)
- UHC Management & Administrators (CA)
- UHC Management (VT)
- UHC Management Company (AK, MA, NH, UT, WV)
- UHC Management Company, Inc. (AL, AZ, AR, CA, CO, CT, DE, FL, GA, ID, IL, IN, IA, KY, LA, ME, MD, MA, MI, MN, MO, MT, NE, NJ, ND, OH, OR, PA, RI, SD, TN, TX, VA, WA)
- UHC of Illinois Inc. (IL)

- UHC of Missouri and United HealthCare of Missouri (MO)
- UMC Management Company, Inc. (OH)
- United HealthCare (MA, UT)
- United HealthCare Corporation (AZ, AR, CA, CO, CT, DE, FL, GA, ID, IN, IA, KY, LA, ME, MD, MO, MT, NC, ND, NE, NJ, OH, OR, RI, SD, TX, WA)
- United HealthCare Management (VT)
- United HealthCare Management Company, Inc. (IL, MI, OK, PA, TN, VA)
- United HealthCare Management Services (PA, NY)
- United HealthCare of Illinois, Inc. (IL)
- United HealthCare Services of Minnesota (NH)
- United HealthCare Services of Minnesota, Inc. (AR, FL, IL, OK, RI, SD, VT, WV)
- United Resource Networks (CA, GA, IL, IN, IA, MD, MI, MN, MO, NE, NY, NC, RI, UT)
- United Resource Networks, Inc. (CO, TN)
- UnitedHealth Group Incorporated (CA)

Transactions and Agreements with Affiliates

Management Agreement

The Company had no employees during the period under examination. Effective December 31, 1999, the Company entered into an amended and restated *Management Agreement* with United HealthCare Services, Inc. (UHS), Minnetonka, Minnesota. The agreement stipulated that the Company shall engage in the business of arranging for the provision of health care coverage to its enrollees, and UHS shall provide to the Company certain administrative, financial and managerial services necessary for its day-to-day operations. These included, but were not limited to the following:

- computerized management information systems;
- development and implementation of standardized contracts concerning the Company's subscribers and providers;
- preparation and filing of required applications and records;
- general administrative and financial services;
- placement and maintenance of insurance with respect to Company operations;
- underwriting services;
- internal audit services;
- marketing, sales, and provider relations;
- recruitment, compensation and supervision of all on-site personnel;
- retention of adequate office space, furniture and equipment;
- maintenance of appropriate books and records with respect to its activities, whereby all documentation is available for review by Company representatives and the Alabama Insurance Department; and
- the establishment of a payment process.

The Company was responsible for the costs associated with the following:

- payment of all debts and obligations of the Company;
- retention and compensation of independent auditors;
- payment of all fees and costs directly and indirectly related to the delivery of health care services and supplies to enrollees;
- establishment and maintenance of appropriate financial reserves, capital requirements and payments relating to deposits, annual fees

and licensing fees;

- payments relating to premium, income, sales, or any other form of taxes;
- payments made to any independent broker, consultant or agent in regard to sales of the Company's products or programs or to other independent consultant or advisors;
- premiums for policies of insurance with respect to the Company's operations;
- bad debt expenses;
- and activities and expenses related to the Board of Directors and Committees of the Company.

The monthly management fee was based on a specific dollar amount multiplied by the number of persons covered by the Company's commercial managed care programs for that month.

Another required monthly management fee was based on a specific dollar amount multiplied by the number of persons covered by the Company's Medicare managed care programs for that month.

Both of these monthly management fees were to be paid on or before the 10th calendar day of each month. The final calculation for the management fee for the calendar year shall be calculated within fifteen calendar days of receipt of the Company's audited financial statements. Any additional amounts required by such calculation or repayments by United HealthCare Services, Inc. to the Company of previously credited fees shall be made within thirty calendar days following receipt of the audited financial statements.

During 2004 and 2003, the Company paid $16,629,104 and $20,057,091, respectively, under this agreement.

Termination of this agreement requires prior notification to the Alabama Insurance Commissioner.

The amended and restated agreement was approved September 4, 2001. The First Amendment to the amended and restated agreement was submitted and approved by the Alabama Department Insurance Commissioner on June 11, 2004 in accordance with ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(1987). The amendment addressed the Alabama Department of Insurance requirement for providing clarification in the

agreement regarding ownership of the Company's data.

Premium Allocation Agreement

Effective January 1, 1998, United HealthCare Services, Inc. (UHS) on behalf of itself and as operator of those of its affiliated health maintenance organizations entered into a premium allocation agreement with United HealthCare Insurance Company (UHIC). The terms of this agreement, included, but were not limited to, the following provision:

"UHIC shall be entitled to receive consideration received for insurance coverage marketed and issued in conjunction with products marketed and issued by the HMOs which shall be (i) fair and reasonable; (ii) determined according to actuarial review conducted at least annually; (iii) allocated in conformity with customary insurance accounting practices consistently applied."

For the years 2004, and 2003, the Company paid UHIC $201,660 and $1,360,631, respectively.

The approval of this agreement was not required because a July 6, 2001 letter from the Commissioner of Insurance stated in part that: "... The following agreements are not directly between United HealthCare of Alabama, Inc. and its affiliates. Therefore, my approval is not required..."

Tax Sharing Agreement

Effective June 1, 1994, and as amended October 1, 1996, the Company entered into a tax sharing agreement with UnitedHealth Group Incorporated (UHG), formerly United HealthCare Corporation (UHC). The agreement provided for UHG to file a consolidated federal income tax return on behalf of all the members of the group, including the Company. The agreement applied to tax returns beginning with the year ended December 31, 1990, and for each subsequent taxable year. The agreement included, but was not limited to, the following provisions:

"Each member shall pay UHG an amount equal to the full separate federal, state and local (if any) income tax liability attributable to the net taxable income of such member that would have been paid if such member had filed separate federal, state and local income tax returns."

"Any federal surtax exemption available to the group shall be allocated proportionately to UHC and the members based upon the taxable income for such tax year produced. In the event any member has a loss, for the purpose of allocating the surtax exemption for such tax year, such member shall be deemed to have no federal taxable income."

The approval of this agreement was not required because a July 6, 2001 letter from the Commissioner of Insurance stated in part that: "... The following agreements are not directly between United HealthCare of Alabama, Inc. and its affiliates. Therefore, my approval is not required..."

Subordinated Revolving Credit Agreement

Effective December 1, 1999, the Company entered into a subordinated revolving credit agreement with UnitedHealth Group Incorporated, formerly United HealthCare Corporation. The agreement provided the Company access to short term borrowing and a revolving credit line in the amount of $10 million. Under the agreement terms, interest is payable at the one month London InterBank Offered Rate (LIBOR) in effect on the last business day of the calendar month prior to the calendar month for which interest is being paid plus 50 basis points. In addition to the above, the agreement included, but was not limited to, the following provisions:

- The Company agrees to lend and re-lend amounts requested by the UHG, not to exceed the aggregate principal amount, if any, set forth in UHG's Addendum to be outstanding at any one time.
- The Company may require that each loan hereunder be evidenced by a note.

For the years under review, no amounts were borrowed by the Company.

The Agreement was approved by the Alabama Insurance Commissioner on May 18, 2004

Agreement for the Provision of Services

Effective January 1, 1996, the Company entered into a mental health and substance abuse agreement with United Behavioral Health, Inc. (UBH). This agreement sets forth the terms and conditions under which UBH provided and/or arranged for the provision of certain mental health and substance abuse

services to individuals covered by benefits plans sponsored or issued by the Company.

The agreement was an exclusive agreement regarding the rights, responsibilities, and other conditions for the provision and payment of Mental Health and/or Substance Abuse (MHSA) Services and/or Utilization Management (UM) Services. The responsibilities of UBH shall be limited as defined by the terms of this agreement.

- UBH is responsible for arranging for a Provider network to provide mental services to covered persons.
- UBH shall assure that 90% of all covered persons who reside within the service area are within 30 miles or 30 minutes of a Provider.
- UBH shall provide to all covered persons a 24-hour toll-free telephone line, for referral for required services, crisis intervention, and responding to inquiries regarding available services.

Fees under this agreement are calculated on a per member per month basis.

During 2004 and 2003, the Company paid $2,399,486 and $4,360,621 respectively.

The agreement and amendments one through number eight were approved by the Alabama Insurance Commissioner on July 10, 2001. The amendments of 2002 through 2005, which are amendments 9 through 11, were not submitted to the Alabama Insurance Commissioner as required by the ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(3)(1987).

Transplant Services Agreement

Effective May 14, 1998, the Company and United HealthCare Services, Inc (UHS) formerly UHC Management Company, Inc., on behalf of its division, entered into an agreement with United Resources Networks (URN). The agreement provided for UHS to arrange for access to participating providers for the rendering of certain transplantation services. The agreement stipulated that UHS provide certain other services to the Company, including the following:

- payment for services in accordance with terms as stipulated in the Appendix;

- statement of conduct in reference to discriminating or differentiating in the rendering of transplant services to members;
- assistance in obtaining cooperation from participating providers concerning utilization management and quality assessment programs;
- maintenance of all federal, state, and local licenses, certifications and permits necessary for the provision of transplant services for all Healthcare professionals employed by or under contract to the provider;
- verification that each party may audit and/or copy pertinent files and records directly related to the agreement;
- each party deemed responsible for claims, liabilities, damages, or judgments that may arise as a result of negligence or intentional wrongdoing;

The agreement was amended in March, 2003 to include attached appendixes for, transplant access programs, congenital heart disease services, cancer resources services and extra contractual services. The agreement was amended again on February 10, 2004, to include a rate amendment.

During the years 2004 and 2003, the Company paid $20,915 and $77,019 respectively.

The Company provided letters, dated July 10, 2001 and September 4, 2001 from the Alabama Department of Insurance, stating that the Company's "Amendment to the United HealthCare Services, Inc. Transplant Services Agreement" had been approved by the Commissioner.

The Alabama Insurance Commissioner approved the agreement on July 10, 2001. Executed amendments for the years 2003 and 2004, were not submitted to the Alabama Insurance Commissioner as required by the ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(3)(1987).

OPTUM Services Agreement

This agreement, effective November 1, 1999, was between OPTUM, a division of United HealthCare Services, Inc. (UHS), and United Healthcare, Inc., on behalf of the Plans that are affiliated with United Healthcare. Under the terms of the agreement OPTUM provides 24 hour call-in service, called *Care24*, immediate access to an employee assistance program and a nurse line general health information service to its enrollees. Services included in various addenda were as follows:

Care24; and
Health and Well Being Information

Administrative services included the following:

- standard aggregate reports within 45 days after the end of the reporting period;
- communications materials and activities;
- responsibility for damages and insurance;
- regulatory compliance and filing; and
- maintenance of books and records.

Other services were available upon mutual agreement of the parties.

The agreement can be terminated after the initial term (ending December 31, 2000), with ninety days written notice, and will automatically renew for additional one-year terms.

For the years 2004 and 2003, the Company paid $254,650 and $639,273 respectively.

The first Restated Participating Plan Addendum of this agreement was approved by the Alabama Department of Insurance per a letter from the Alabama Department of Insurance dated September 4, 2001.

The Company did not provide documentation of the submission of the Second, Third and Fourth amendments to the Restated Participating Plan Addendum to the Alabama Insurance Commissioner as required by the ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(3)(1987).

Vision Care Services Agreement

United HealthCare Service, Inc. (UHS), on behalf of health plans that are owned and/or managed by UHS and its affiliates had a vision care services agreement with Coordinated Vision Care, Inc. ("CVC"), a vision benefit management company. Under the terms of the agreement, Coordinated Vision Care Services is to manage and arrange participating providers to render vision care services to eligible members. According to this agreement, CVC shall

provide certain services to UHS, including the following:

- manage and arrange for participating providers to provide vision care services to members;
- establish and maintain a credentialing process to which all participating providers shall be subject;
- provide participating providers with an inventory of frames to display in their offices;
- establish and maintain contractual relationships with wholesale laboratories for the fabrication of prescription ophthalmic lenses;
- make initial determinations on whether services and/or supplies requested by or on behalf of a member or for which a member has requested reimbursement are vision care services;
- process claims for vision care services;
- attempt to resolve any disputes that arise regarding coverage;
- provide consulting services which relate to vision benefit designs, underwriting considerations and marketing strategies;
- provide UHS with monthly or quarterly reporting, accrediting agency reporting, and specialized reporting regarding the vision care services managed and arranged by CVC; and
- establish and maintain a quality management program, provider credentialing and re-credentialing program, and other programs.

UHS is responsible for the costs associated with the following:

- providing CVC with a current list of participating plans' members at least thirty days before the effective date, and at least weekly thereafter;
- any claims for vision care services related to retroactive adjustments of eligibility greater than sixty days; and
- regulatory compliance associated with the vision benefits set forth in the benefit contract(s) and for filing the agreement with federal, state and local governmental authorities as required by any applicable law or regulation.

An addendum to this agreement was entered into between United HealthCare of Alabama, Inc. (Company) and CVC effective October 1, 2001. In addition to the responsibilities outlined in the agreement, CVC and the Company agree to the following responsibilities:

- CVC agrees that it shall maintain at its principal office books and records that are usual and customary for the services provided under this agreement for the duration of the agreement and at least five years thereafter.
- The Company acknowledges that it retains the ultimate responsibility to assure delivery of all vision care services required by the benefit contract.
- CVC shall provide a copy of its provider manual to all providers at the time they are reviewing/evaluating CVC's Provider Participation Agreement for participation in CVC's provider network.
- CVC will provide information regarding payment and incentive arrangements to all providers at the time they are reviewing/evaluating CVC's Provider Participation Agreement for participation in CVC's provider network.
- The Company shall provide CVC with a copy of its provider manual, and will provide CVC with written notice of any changes to the provider manual.
- The Company will pay CVC a per member per month fee for each member as set forth in the applicable rate appendix, as compensation for CVC's network and management services.

The addendum between the Company and CVC effective October 1, 2001 was approved by the Alabama Department of Insurance per a letter from the Department of Insurance dated September 4, 2001.

During 2004 and 2003, the Company paid $9,099 and $41,302 respectively.

The approval of this agreement was not required because a July 6, 2001 letter from the Commissioner of Insurance stated in part that: "... The following agreements are not directly between United HealthCare of Alabama, Inc. and its affiliates. Therefore, my approval is not required... "

ACN Group, Inc.

Effective September 1, 2002, the Company became a participant in an agreement with ACN for chiropractic network access services and complementary and alternative medicine network access services. For the years 2004 and 2003, the Company paid $48,222 and $143,001 respectively.

The approval of this agreement was not required because a July 6, 2001 letter

from the Commissioner of Insurance stated in part that: "... The following agreements are not directly between United HealthCare of Alabama, Inc. and its affiliates. Therefore, my approval is not required... "

Pharmacy Benefit Agreement

Effective January 1, 2004, UHS, on behalf of itself and its affiliates, entered into a Pharmacy Benefits Agreements with Medco Health Solutions, Inc., the successor to Merck-Medco Management Care, LLC. No addendum or amendment was executed in the Company's participating agreement to reflect the name change of the pharmacy benefit provider, from Merck-Medco Management Care, LLC to Medco Health Solutions, Inc.

The amendments were not submitted to the Alabama Insurance Commissioner as required by the ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(3)(1987).

In addition to the above affiliated agreements, the Company was party to an affiliated reinsurance agreement. See the Reinsurance section of this report for further information.

Dividends to Stockholder

The Company paid the following dividends:

	2002	$32,767,171
	2003	39,000,000
	2004	37,095,070
Total		$108,862,241

For the years under review in Schedule Y, the Company disclosed that the dividends were paid to an affiliate, United HealthCare Services, Inc., not to its immediate parent, United Healthcare, Inc. The Company was requested to provide documentation to show to whom the dividends were paid. The documentation received showed the Company's immediate parent, United Healthcare, Inc., board of directors resolved to pay their subsidiaries' proposed dividend to United HealthCare Services, Inc.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a blanket crime policy issued by National Union Fire Insurance Company of Pittsburgh, Pennsylvania, which met the minimum requirement of the NAIC Financial Examiners Handbook 2004. This bond covered the following: employee dishonesty, loss inside the premises, loss outside the premises, money orders and counterfeit paper currency, and depositors forgery coverage.

In addition to the aforementioned fidelity bond, the Company is also a named insured on the following coverage to protect the Company against hazards to which it may be exposed:

- Business Auto Coverage
- Directors, Officers and Corporate Liability Insurance
- Commercial General Liability
- Commercial Catastrophe Liability
- Managed Care Professional Liability
- Blanket Crime Policy
- Real Property including Building and Personal Property
- Workers Compensation and Employee Liability

The coverage and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company's interests at the examination date. The records of these insurance policies were being kept in Minnetonka, Minnesota.

In accordance with an agreement, signed by the Alabama Insurance Commissioner on May 9, 2005, the Company maintains, for a period of three years effective January 2004, its executive branch offices and books and records outside the State of Alabama.

EMPLOYEE AND AGENT'S WELFARE

The Company had no employee pension or other insurance plans as it had no employees. All personnel are employees of United HealthCare Services, Inc., which provides services to the Company under the terms of a management agreement.

SPECIAL DEPOSITS

The State of Alabama held, as a statutory deposit, a $100,000 par value, 6.750% interest rate, U.S. Treasury Note, with a maturity date of May 15, 2005. At December 31, 2004, this bond had a statement value of $101,069 and a fair value of $101,547.

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table shows assets, liabilities, capital and surplus, and net premium income for the period under review.

	2002	2003	2004*
Net Admitted Assets	$123,481,717	$110,383,549	$100,852,777
Total Liabilities	61,015,111	49,731,521	55,350,429
Total Capital and Surplus	62,466,606	60,652,028	45,502,348
Net Premium Income	361,261,674	282,463,350	248,366,435

*Per Examination. Amounts for the remaining years were obtained from Company copies of filed Annual Statements.

MARKET CONDUCT ACTIVITIES

For most aspects of consumer relations, the Company is regulated by the Alabama Department of Public Health (ADPH). During the examination period, ADPH conducted a claims audit on July 29-August 2, 2002, and on July 14-18, 2003, ADPH conducted a Quality Assurance/Utilization review.

Territory

As of December 31, 2004, the Company was licensed to transact business only in the State of Alabama. The certificate of authority was inspected and found to be in order.

The Alabama Department of Insurance and the Alabama Department of Public Health authorized the Company to market products in the following Alabama

counties.

Autauga	Colbert	Hale	Mobile
Baldwin	Conecuh	Houston	Monroe
Barbour	Coosa	Jackson	Perry
Bibb	Covington	Lauderdale	Pickens
Blount	Crenshaw	Jefferson	Pike
Bullock	Cullman	Lawrence	Shelby
Butler	Dale	Lee	St. Clair
Calhoun	Dallas	Limestone	Talladega
Cherokee	Dekalb	Lowndes	Tallapoosa
Chilton	Elmore	Macon	Tuscaloosa
Choctaw	Escambia	Madison	Washington
Clarke	Etowah	Marshall	Wilcox
Cleburne	Franklin	Montgomery	Walker
Coffee	Greene	Morgan	

Plan of Operation

The Company, a for-profit health maintenance organization (HMO), offered a variety of managed care programs and products through contractual arrangements with health care providers. The products offered included fully insured point-of-sale (POS) and basic health care services through an organized system which combines the delivery and financing of health care (HMO) products. The HMO products included a closed access network of providers as well as an open access plan. The Company's POS, or "plus" products featured closed access and open access models with out-of-network benefits. In addition, the Company also offered a Medicare HMP product called "Medicare Complete" to seniors.

In a written statement provided by the Company, the Company's products are primarily marketed through licensed agents. Marketing is done through brochures, and email letters. United Healthcare also markets its products to consumers through the use of brochures and flyers at enrollment meetings. In addition, United Healthcare uses broad consumer advertising mediums, such as print, (The Birmingham Business Journal and national human resources magazine such as Forbes and HR Magazine), radio and TV ads for brand recognition advertising. This advertising rarely includes specific product information and does not include specific local references to any United Healthcare plan.

As of December 31, 2004, the Company used various independent agents to

market and sell its products. A listing of agents was obtained from the Company and a comparison was made to the Alabama Department of Insurances agent's listing of all agents that were licensed by the Alabama Department of Insurance. The total number of agents the Company employed or licensed at December 31, 2004 was 1424. The agents were paid commissions as a percentage based on the number of policies they wrote.

The delivery of all professional services was rendered by physicians who were under contract with the Company and indirectly through administrative service providers. Members were generally required to use these physicians in order for the Company to pay claims submitted by the member's physician. However, the Company also paid out-of-plan provider claims under certain circumstances, such as emergency care and for health care services from physicians and other providers outside the Company's network under the point-of-service options.

The Company's primary products were:

- Comprehensive (hospital and medical)
- Medicare Supplement
- Title XVIII - Medicare

In order to provide the most comprehensive health care to its members, the Company relied on a variety of delivery systems. Those delivery systems were designed to meet the customers' needs for preventive care and comprehensive health care. The total delivery system included:

- Hospitals
- Skilled nursing facilities
- Rehabilitation facilities
- Home health care
- Mental Health/Substance Abuse
- Pharmacy services
- Other ancillary services
- Primary care physicians
- Specialty physicians

Provider Contracts

Provider contracts and turnover rate matters are mostly reviewed by the Alabama Department of Public Health (ADPH). In a letter dated June 15, 2004 from the ADPH, the Company was notified that ADPH will no longer review provider contracts (documents).

Policy Forms and Underwriting Practices

The United HealthCare of Alabama, Inc., Underwriting Department was responsible for the development and implementation of underwriting and pricing policies. The underwriting manual outlined the different products available and the sales process for the different group sizes and products.

The Company bases underwriting for a plan on various factors including the following:

- Any significant changes in enrollment in the plan
- The turnover rate of enrolled subscribers
- The age of each employee, or alternatively, aggregate age information categories of not more than five-year increments
- The gender of each employee. This may be compiled as aggregate information by category.
- The number of dependents, if available.
- Whether the employee is eligible for "single" or "family" coverage, and if three-tier, the number of "dual coverage."
- Whether the employee elects "single" or "family" coverage, and if three-tier, the number of "dual coverage."
- Rating considerations included health characteristics, size of group, location of group, age/gender, and family composition.

There have been no new small business HMO plans added since the beginning of 2002, and key 50+ accounts have added new HMO benefit plans which are mainly plan design modifications.

Based on a review of the policy forms utilized by the Company, it was determined the Company has not submitted for approval its cancellation notices, billing notices, reinstatement offers or lapse notices pursuant to the ALA. ADMIN. CODE 482-1-079-.09(1987) which states: "Every contract,

rider, endorsement, certificate, application or other form to be used or issued must be filed by the HMO for approval by the Commissioner."

Advertising and Marketing

The Company continues to use the Renewal Notice sent to customers as it did during the previous examination which lists the "UnitedHealthcare" on the first line, followed by "A UnitedHealth Group Company" on the second line. During the previous examination, there was a third line which included the United HealthCare of Alabama, Inc. There was no third line which lists the Company's name during this examination.

The Examiner could not locate any companies with the names of "UnitedHealthcare" or "A UnitedHealth Group Company" on the Company's organizational chart.

The coverage request form states that non-medical coverage will be insured by UnitedHealthcare Insurance Company. Nowhere was the name United HealthCare of Alabama, Inc. mentioned.

ALA. CODE § 27-21A-13(3)(d)(1975) requires that: "No health maintenance organization unless licensed as an insurer may refer to itself as a licensed insurer or use a name deceptively similar to the name or description of any insurance or surety corporation doing business in this state."

ALA. ADMIN. CODE 482-1-079-.12(1987) requires that "No name other than that approved by the Commissioner may be used. The name of the HMO may not be changed without prior approval of the Commissioner. Any name which is misleading as to the purpose or type of organization or which is deceptively similar to the name of another licensed HMO shall not be used by the HMO."

Claims Payment Practices

A sample of 100 COSMOS denied claims and 100 COSMOS paid claims were selected for review in which the days to pay were calculated from the date the claim was received to the date the claim was paid or the date the Explanation of Benefit was printed, in the case of a denied claim.

Based on this review, it was noted one paid claim that was filed electronically was not paid within 30 calendar days and therefore the Company was not in compliance with the ALA. CODE § 27-1-17(a)(1975) which states "...Each insurer, health service corporation, and health benefit plan that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim or 30 calendar days upon receipt of a clean electronic claim."

Alabama Department of Public Health Claim Review

The Alabama Department of Public Health (ADPH) performed an audit which covered the period August, 2000 to June, 2003. The Company completed the Corrective Action Plan and submitted it to the ADPH August 29, 2003. The Examiner contacted the ADPH on January 4, 2006 regarding the Corrective Action Plan, and to see if there were any issues outstanding which needed to be investigated during the financial examination. According to the ADPH, the information received from United HealthCare of Alabama, Inc. was very thorough and appeared adequate.

Claim Checks Issuance

When reviewing a sample of paid claims, the examiners determined that the checks the Company issued for payments of claims were cashed (or deposited) within the following number of days:

Number of Checks Cashed	Days until presentation to Bank
3	2
7	3
1	4
17	5
29	6
29	7
2	8
4	9
4	10

1	11
1	17
1	13
1	37

The majority of the canceled claim checks were cashed (or deposited) between 6 or 7 days.

Mental Health Benefits

The examiners determined from reviewing the Company's schedule of benefits that the Company continues to impose a limit on the number of outpatient mental health and substance abuse services visits. The Company's benefits offered were limited to 20 mental health visits per calendar year and did not have the same limit on medical and surgical services. This was not in compliance with ALA. CODE § 27-54-4(b)(1)(1975), which stipulates that: "The group health benefit plan shall offer to provide benefits for the treatment and diagnosis of mental illnesses under terms and conditions that are no less extensive than the benefits provided for medical treatment for physical illness."

Treatment of Members and Claimants

During the review of the Company's complaint handling procedures, the examiners found guidelines requiring Company personnel to respond to complaints received through the Alabama Department of Insurance within ten days. ALA. ADMIN. CODE 482-1-118-.06(1999), requires that:

"The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the Commissioner."

and Alabama Department of Insurance Bulletin dated January 31, 1963, states:

"The Alabama Department of Insurance henceforth will take the position that an insurance company must answer both the policyholder and this Department within ten days after receipt of a departmental complaint."

Based on a review of complaints, the Company complied with their guidelines and the Alabama Department of Insurance requirements.

Policyholder Complaints

The Company maintained consumer complaint files that were received either directly from the customer or through the state's Department of Public Health or Department of Insurance consumer division. These files were maintained by year and insured name.

During the examination period the Company received the following complaints/inquiries:

YEAR	NUMBER OF COMPLAINTS/INQUIRIES
2002	402
2003	312
2004	131

A review of a sample of complaints revealed that the Company maintained adequate documentation in the complaint file and was in compliance with ALA. ADMIN. CODE 482-1-118-.06(1999) and Insurance Department Bulletin issued on January 31, 1963 which requires the Company to respond to the complaints received through the Department within ten business days. The Company has a clause in its complaints handling procedures that addresses this requirement.

Compliance with Agents' Licensing Requirements

The examiners reviewed Company practices on agent licensing to determine whether the agents, who sold the Company policies, were properly licensed. A sample of producers, paid by the Company during the years 2002, 2003 and 2004, was traced to the Alabama Department of Insurance Agents Licensing Division register of appointed agents without significant exceptions. All exceptions were adequately explained by the Company.

In addition, a sample of producer files and commission payments were reviewed in conjunction with issued policies to ensure the selling agent was properly appointed prior to writing the business and to ascertain that the Company only pays commissions to properly licensed and appointed agents and agencies. Based upon this review, there were no exceptions noted.

Terminated Agents

The Examiner requested from the Company a listing of terminated agents for the years under review. A sample was selected and traced to supporting documentation with no exceptions noted. None of the files reviewed indicated the agent was terminated for cause.

A review of the Company's policies and procedures indicated the Company has a procedure in place for reporting to the Alabama Department of Insurance in those instances when an agent is terminated for cause.

Rate Filings

The Company's rates were filed with and approved by the Alabama Department of Insurance in accordance with ALA. ADMIN. CODE 482-1-079-.05(1987) with the exception of a rate change with the Small HMO Group for 2 to 50 eligible employees. ALA. ADMIN. CODE 482-1-079-.05(1987)requires "Rates must not be excessive, inadequate or unfairly discriminatory. Rates may not be changed without prior approval of the Commissioner and without thirty (30) days notice of the proposed change given to enrollees." During the examination, the Company filed the rate changed and received approval from the Department on January 26, 2006. The examiners verified with the consulting actuary that all of the Company's other rate and group size factors were filed and approved by the Alabama Department of Insurance.

REINSURANCE

The Company did not assume any reinsurance.

Reinsurance Ceded

The Company was a party to an affiliated reinsurance agreement with an effective date of January 1, 2001. The agreement was a stop loss reinsurance agreement between the Company and United HealthCare Insurance Company, Inc. (UHIC). Under the terms of the agreement, the Company retained the first $150,000 of eligible inpatient hospital expenses incurred for each member and the UHIC covered up to 90% of the eligible inpatient hospital expenses in excess of the retention. Coverage was limited to a maximum recoverable of $2,000,000 per member per contract year.

For the years 2004 and 2003, the Company paid $234,107 and $396,980 as reinsurance premiums and received reinsurance payments on paid claims of $147,910 and $519,000 respectively. Our review of this agreement disclosed no unusual provisions.

The agreement was terminated December 31, 2004.

Effective January 1, 2005, the Company entered into an Insolvency Reinsurance Agreement with United Healthcare Insurance Company (reinsurer). Under the terms of this agreement, the reinsurer, in the event of the Company's insolvency, will provide payments to unaffiliated providers for services rendered to members prior to insolvency of the Company. In addition, members shall have their coverage continued for this period for which their premiums have been paid and benefits will be continued to members confined in an acute care hospital or in a skilled nursing facility until their discharge or coverage under another health benefit plan by another carrier.

The contract was approved by the Alabama Insurance Commissioner December 17, 2004.

ACCOUNTS AND RECORDS

General

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Most of the record keeping functions are performed in Edina, Minnesota by the Company's indirect parent, United HealthCare Services, Inc. (UHS). Our review did not disclose any significant deficiencies in these records.

On May 9, 2005, the Alabama Insurance Commissioner granted approval to the Company to have its executive and principal operations offices and its usual operations records in the State of Minnesota, so that general administration of the Company's affairs may be combined with that of an affiliated insurer or insurers, subject to all of the following conditions:

a) The Commissioner consents to said removal of offices and records from this state upon evidence satisfactory to the Commissioner that the same will facilitate and make more economical the operations of the insurer

and will not unreasonably diminish the service or protection thereafter to be given the insurer's policyholders in this state and elsewhere.

b) The insurer will continue to maintain in this state a corporate officer and its principal corporate office or place of business, and maintain therein available to the inspection of the Commissioner complete records of its corporate proceedings, its general ledger and a copy of each financial statement of the insurer current with the preceding 5 years, including a copy of each interim financial statement prepared for the information of the insurer's officers or directors.

c) Upon written request of the Commissioner, the insurer will within ten (10) business days produce at its principal corporate offices in this state for examination or for subpoena its records or copies thereof relative to a particular transaction or transactions of the insurer as designated by the Commissioner in the request.

d) The Commissioner may order the return of said offices and records to this state if at any time the Commissioner finds the conditions justifying the maintenance of said offices and records outside this state no longer exist or that the insurer has willfully and knowingly violated any of the conditions stated in paragraphs a., b. or c. The order may specify a reasonable time of not more than six (6) months within which time said offices and records are to be returned to this state. The Commissioner may suspend or revoke the insurer's certificate of authority for its failure to comply with said order.

e) This agreement is only effective for a period of three years, retroactive to January 1, 2004. During the first six months of the year 2006, if the Company desires to continue to maintain these records outside of this state, the Company should file a request to renew this Agreement. If the Company fails to submit the necessary request to renew this Agreement prior to its termination, the Department may, at its discretion, take any actions available to it under Ala. Code Section 27-27-29.

f) All costs and expenses of the examination of the insurer shall not be subject to deduction from insurance premium taxes.

g) This Agreement is governed under the laws of the State of Alabama.

h) This Agreement may only be revised in writings which are accepted by the Company and the Alabama Commissioner of Insurance.

The Company understands that copies of "corporate records" would be maintained in Alabama.

The Company stated that it expected to complete a review of and any associated revisions to the Record Retention Schedule within sixty days from December 8, 2005.

Since that time, the Company stated it had conducted the review and had multiple meetings for the purpose of fully implementing the Agreement to Maintain Books and Records Outside the State of Alabama. A policy outlining the process was written. As of May 12, 2006, all corporate documents required to be maintained in Alabama are maintained in United Healthcare's Alabama location. United Healthcare staff responsible for maintaining this process has been trained.

During the first quarter of the year 2005, the Company moved its offices from Colonnade Parkway, Birmingham, Alabama to Inverness Center Parkway, Birmingham, Alabama and failed to notify the Alabama Insurance Commissioner.

During this examination, Management asked for extensions of time to provide the following requested items. The Examiner-in-charge granted the Company the extensions:

Item	Date Requested	Date Received
Lag triangle and other workpapers to support the claim liability incurred	9/13/2005	10/10/2005 and 10/31/2005
Written request for actions taken by the Company to comply with the previous examination recommendations	10/20/2005	11/4/2004 (Electronic Format 11/20/2005)
Policy and premium data individual	10/24/2005	12/1/2005 and 12/7/2005
Claims in litigation	10/24/2005	11/17/2005
Transplant Services Agreement ALDOI approval	11/8/2005	12/28/2005
MerckMedco Agreement with Addendums – ALDOI approval	11/9/2005	12/8/2005
Compliance with "Agreement to Maintain Books and Records Outside		

the State of Alabama"	11/16/2005	12/8/2005
Policy and premium data – Medicare	11/28/2005	12/14/2005
Fraud advertising information	1/10/2006	1/31/2006
In-Force policy information	3/27/2006	5/8/2006
Terminated policy files	3/27/2006	4/12/2006
Cancelled policies	3/28/2006	4/17/2006
Rejected/Denied policies	3/29/2006	5/1/2006

Management and record-keeping functions were performed by personnel and facilities of United HealthCare Services, Inc. under various management and service agreements. Further discussion on the aforementioned agreements is included in the "HOLDING COMPANY AND AFFILIATE MATTERS" section under the caption *Transactions and Agreements with Affiliates*, on page 16 of this report.

The Company was audited annually by the independent certified public accounting (CPA) firm of Deloitte & Touche, LLP, Minneapolis, Minnesota, for the three-year period covered by this examination. The CPA workpapers for 2004 were obtained from Deloitte & Touche, LLP for review during this examination.

The reserve calculations for the examination period were certified by Thomas E. Burton, F.S.A., M.A.A.A., Senior Vice President and Chief Actuary of United HealthCare Insurance Company, an affiliate of the Company. The actuarial workpapers were provided from Hartford, Connecticut.

Other Audit Functions

The United Health Group Internal Audit function is a component of the Business Risk Management (BRM) Group.

A Global Accounting/Auditing Firm (Service Provider), under the direction of the United Health Group Vice-President of BRM and General Auditor, executes the independent monitoring activities of this function.

The extent, frequency and scope of these activities are determined by the General Auditor and approved by the Audit Committee. The United Health Group Internal Audit function serves as a "Management Accountability Structure," which includes testing of critical controls to independently validate that management and the organization are:

- managing critical risks by effectively and consistently executing appropriate risk management strategies
- fulfilling their commitment to implement agreed upon improvement action plans, and
- obtaining independent corroboration for management's assessment regarding the adequacy of the United Health Group internal control system.

The organization consists of a project manager, one to two audit seniors and one to two audit staff. Subject Matter Experts (SME) are also engaged as appropriate.

The execution of internal audits is outsourced to a large global firm with potentially thousands of available resources to choose from to meet the specific competency requirements for each project. The Company's Internal Audit execution is outsourced to Ernst & Young (E&Y). E&Y's Team is made up of, a Coordinating Partner, a number of CPAs and CIAs.

Accounts and Records – IS Examiner's Review

The Company failed to timely provide complete and accurate information with regard to outside vendors. The response that was provided took over four weeks to provide. The first attempt was incorrect and incomplete. The second version was well done with one exception – that being that Lason was not included as a provider of Regional Mail Office (RMO); however, the RMO that was visited by the IS Examiner was run by Lason. Lason was included as a Keying Vendor and thus was in the list. The length of time and the quality of the information provided is cause for concern that there is no Contact Management Office (CMO) that administers contracts of service providers. This concern was somewhat alleviated by the final report and supporting documents provided. However, the concern with the length of time taken to collect this information still indicates a lack of control in this area.

The Company was not in compliance with the ALA. ADMIN. CODE 482-1-118-.06(1999), which states: "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the Commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction

of the Commissioner that there is a reasonable justification for the delay."

In addition to the above, the Company's complexity requirement was disabled in the MS Active Directory Password Requirements.

Claim Processing Audits

The claims process was reviewed in Eau Clare, Wisconsin for the Medicare business and in Greensboro, NC for the Commercial business.

The claims are imaged and electronically routed to a data entry provider. The data is entered into the claims adjudication system. If the claim is not for an eligible member or group, the system will not allow entry and the claim is routed back to the processors and is returned to the submitter for correction or resubmission. The claims are not entered into the system at all if it is not acceptable at this level or review. Claims that are entered into the system run through the nightly cycle. Most claims are adjudicated automatically - the system can determine that the claim is acceptable and that no further information is needed. If this is the case, a check request is issued by the auto-adjudication system in COSMOS and the check will be printed in Duncan, SC. If there is any indication that the claim has a possibility of being denied - such as being a duplicate, needing further information, ineligibility of the member or the service performed - the claim will be routed to a queue to an adjustor who works the exceptions. The process of working the exceptions was observed and the controls found to be adequate.

The IS Examiner also observed the processing of claims for the commercial business for Alabama claims. The claims are received either electronically from a provider or a claims clearinghouse. The paper claims are received in any one of several RMOs and are reviewed for completeness, eligibility and provider information. The paper claims are imaged and entered into the electronic workflow system where they are routed to a data entry center. Some claims are determined to require direct data entry at the RMO. The examiner visited the RMO that is outsourced to Lason and located in Newnan, GA. The claims that are entered into the UNET system using an interface called the United Front End, are run through the nightly cycle and most are able to be adjudicated automatically. Those that are not clearly payable are rerouted through the workflow system and appear in the queues of appropriate processing units and are distributed to adjustors with the specific skill set to manage the type of issue that prevented the claim from auto-adjudicating. This

process was observed during the visit to the Greensboro, NC claims processing office.

Audits by Other Regulatory Agencies

The Alabama Department of Public Health (ADPH) conducted a Comprehensive Audit of United HealthCare of Alabama, Inc., in 2003. The scope of the audit was the period from August 1, 2000 through May 31, 2003.

The Centers for Medicare and Medicaid Services (CMS) conducted a Consolidated CMS site visit of all United HealthCare health plans in 2003. This site visit was not specific to United HealthCare of Alabama, Inc.

COMPLIANCE WITH ALA. ADMIN. CODE 482-1-122

Per the legal department at the Alabama Department of Insurance, health maintenance organizations are not required to comply with ALA. ADMIN. CODE 482-1-122(2002). They are, however, required to be in compliance with the federal privacy law by April 14, 2003.

The Company did not share customers' personal information with any nonaffiliated third parties. Any information the Company disclosed to any third parties was for the purpose of conducting day-to-day business functions such as the payment of claims.

Instructions were in place for employees to provide guidelines for the handling of personal information the Company employees or affiliated parties might have to access.

The Company did provide notices to its customers that indicated the types of information it collected, the way it was used and the manner of collection. The notices also informed the customers that the Company did not disclose any information to any nonaffiliated third parties unless permitted to do so by law.

The Company's disclosure of any health information was made only after authorization from its customers unless the disclosures were made under section 17B of the NAIC model regulation.

FINANCIAL STATEMENTS

The financial statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2004. Amounts shown in the comparative statements for the years 2002 through 2003 were compiled from Company copies of filed Annual Statements.

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

UNITED HEALTHCARE OF ALABAMA, INC.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

ASSETS	ASSETS	NON-ADMITTED ASSETS	NET ADMITTED ASSETS
Bonds	$46,972,629		$46,972,629
Cash and short-term investments	50,880,763		50,880,763
Investment income due and accrued	806,798		806,798
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	509,050	$37,197	471,853
Net deferred tax asset	1,647,755		1,647,755
Receivable from parent, subsidiaries and affiliates	72,979		72,979
Health care and other amounts receivable	795,982	795,782	0
TOTAL ASSETS	$101,685,956	$833,179	$100,852,777

LIABILITIES

	Covered	Uncovered	Total
Claims unpaid	$27,457,451	$4,139,155	$31,596,606
Accrued medical incentive pool and bonus amounts	30,000		30,000
Aggregate health policy reserves	6,950		6,950
Aggregate health claim reserves	781,978	117,882	899,860
Premiums received in advance	22,286,587		22,286,587
General expenses due and accrued	207,609		207,609
Current federal and foreign income tax payable and interest thereon	304,409		304,409
Amounts withheld or retained for the account of others	18,408	0	18,408
Total liabilities			$55,350,429
Surplus			
Common capital stock	XXX	XXX	101,978
Preferred stock	XXX	XXX	20,000
Gross paid in and contributed surplus	XXX	XXX	17,561,870
Unassigned funds (surplus)	XXX	XXX	27,874,750
Less 15,000 shares treasury stock at cost	XXX	XXX	56,250
Surplus as regards policyholders	XXX	XXX	$45,502,348
TOTAL LIABILITIES AND SURPLUS			**$100,852,777**

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

UNITED HEALTHCARE OF ALABAMA, INC.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2004

REVENUES	
Net premium income	$ 248,366,435
Change in unearned premium reserves and reserve for rate credits	(2,950)
Aggregate write-ins for other non-health revenues	814,485
Total revenues	$ 249,177,970
HOSPITAL AND MEDICAL	
Hospital/medical benefits	$ 189,614,675
Other professional services	16,629
Prescription drugs	10,025,313
Incentive pool, withhold adjustments and bonus amounts	113,980
Subtotal	$ 199,770,597
Less:	
Net reinsurance recoveries	$ 147,910
Total hospital and medical	$ 199,622,687
Claims adjustment expenses	5,847,196
General administrative expenses	15,622,760
Increase in reserves for health contracts	(4,942)
Total underwriting deductions	$ 221,087,701
Net underwriting gain or (loss)	$ 28,090,269
Net investment income earned	$ 3,444,845
Net realized capital gains or (losses)	527,085
Net investment gains or (losses)	$ 3,971,930
Aggregate write-ins for other income or expenses	$ 2,000
Net income or (loss) before federal income taxes	$ 32,064,199
Federal and foreign income taxes incurred	10,341,000
Net income (loss)	$ 21,723,199

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

UNITED HEALTHCARE OF ALABAMA INC.
STATEMENT OF NET WORTH
For the Years Ended December 31, 2002, 2003 and 2004

	2002	*2003*	*2004*
Net worth beginning of year	$58,935,432	$62,466,606	$60,652,028
Net income	$36,471,471	$37,095,070	$21,723,199
Change in net deferred income tax	(159,462)	(697,464)	(310,864)
Change in non-admitted assets	(13,664)	787,817	533,055
Dividends to stockholders	(32,767,171)	(39,000,000)	(37,095,070)
Aggregate write-ins for gains or (losses) in surplus	0	(1)	0
Net change in capital and surplus for the year	$3,531,174	$(1,814,578)	$(15,149,680)
Capital and surplus, December 31, current year	$62,466,606	$60,652,028	$45,502,348

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

There were no notes to financial statements that indicated a violation of the Alabama Insurance Code, the Insurance Department's rules and regulations, or which were deemed to require comments and/or recommendations.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an assessment of representations made by Company management; a review of a summary of pending litigation made by the Company's legal counsel and a general review, during the examination, of the Company's records and files, including claim files.

This review did not disclose any items that would have a material impact on the Company's financial condition in the event of an adverse outcome.

SUBSEQUENT EVENTS

Dividends:

By letter dated May 6, 2005, the Company received approval from the Alabama Department of Insurance regarding a dividend payment of $28.3 million.

Changes in administration:

Effective June 1, 2005, Juanita Bolland Luis was elected to serve as an Assistant Secretary and Karen L. Erickson was elected to serve as Vice-President - Finance and Assistant Treasurer of the Company. Further, it was noted that George L. Mikan, III's title was changed from Vice President - Finance and Assistant Treasurer to CFO, United Healthcare and Assistant Treasurer.

Management Agreement:

On February 15, 2006, an amendment was submitted to the Alabama Department of Insurance requesting that the management fee rate be changed for persons covered under the Plan's Medicare Managed Care programs. The

effective date of this amendment is January 1, 2006 and approval was received from the Alabama Department of Insurance on April 19, 2006.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The examination included a review to determine the current status of the ninety three exception conditions commented upon in the preceding Report of Examination, dated February 13, 2004, which covered the period from January 1, 2000 through December 31, 2001. This review indicated that the Company had not satisfactorily complied with the prior recommendations as listed below:

Advertising and Marketing

In the previous examination, it was recommended that the Company not include any ambiguous or misleading information in any of its form letters, and not use any other names except for its corporate name that was approved by the Commissioner, in accordance with ALA. CODE § 27-21A-13(d)(1975), which requires that

"No health maintenance organization unless licensed as an insurer may refer to itself as a licensed insurer or use a name deceptively similar to the name or description of any insurance or surety corporation doing business in this state."

and ALA. ADMIN. CODE 482-1-079-.12(1987) which states

"No name other than that approved by the Commissioner may be used. The name of the HMO may not be changed without prior approval of the Commissioner. Any name which is misleading as to the purpose or type of organization or which is deceptively similar to the name of another licensed HMO shall not be used by the HMO."

As of the current examination, the Company is still not in compliance with this law and regulation.

Accrued Medical Incentive Pool and Bonus Payments

In the previous examination it was recommended that the Company create a contract for the Medicare Primary Care Physicians' (PCP) bonus program detailing the specifics and conditions of the program, and that all

documentation to support the amount be maintained by the Company. The Company's Medicare Primary Care Physicians' bonus program is no longer in effect. Only fee for service PCPs participate in this bonus program at the discretion of the plan and there is no contractual arrangement. Based upon this finding, the Company is still not in compliance with the previous examination as there is no contract for the fee for service PCPs.

Mental Health Benefits

In the previous examination, it was recommended that the Company not impose any limits on mental health benefit services that are not imposed on medical and surgical services in compliance with ALA. CODE § 27-54-4(b)(1)(1975).

The examiners determined from reviewing the Company's schedule of benefits that the Company continues to impose a limit on the number of outpatient mental health and substance abuse services visits. The Company's benefits offered were limited to 20 mental health visits per calendar year and did not have the same limit on medical and surgical services. This is still not in compliance with ALA. CODE § 27-54-4(b)(1)(1975), which stipulates that: "The group health benefit plan shall offer to provide benefits for the treatment and diagnosis of mental illnesses under terms and conditions that are no less extensive than the benefits provided for medical treatment for physical illness."

COMMENTS AND RECOMMENDATIONS

The following summary presents the comments and recommendations that are made in the current *Report of Examination.*

Transactions and Agreements with Affiliates - Page 16

It is recommended that the Company submit for approval to the Commissioner of the Alabama Department of Insurance, the amendments and any future amendments to the Agreement for the Provision of Services, the Transplant Services Agreement, the OPTUM Services Agreement, and the Pharmacy Benefit Agreement as required by the ALA. CODE § 27-21A-4 (1975) and ALA. ADMIN. CODE 482-1-079-.13(3)(1987) which states "Any management contractor who shall manage the financial affairs, investment affairs or any of the health care activities of the HMO shall be subject to prior approval by the Commissioner with the advice of the State Health Officer."

Dividends to Stockholder - Page 25

It is recommended that in future filed annual statements the Company properly disclose dividend payments to its parent, United HealthCare, Inc., and not United Healthcare, Inc.'s payment to its parent, United HealthCare Services, Inc.

Policy Forms and Underwriting Practices - Page 31

It is recommended that the Company should properly file for approval all "other forms to be used or issued" by the Company to ensure compliance with ALA. ADMIN. CODE 482-1-079-.09(1987).

Advertising and Marketing - Page 32

It is recommended that the Company not include any ambiguous or misleading information in any of its form letters, and not use other names except for its corporate name that was approved by the Commissioner, in accordance with ALA. CODE § 27-21A-13(d)(1975), which requires that "No health maintenance organization unless licensed as an insurer may refer to itself as a licensed insurer or use a name deceptively similar to the name or description of any insurance or surety corporation doing business in this state." Alabama Department of Insurance Regulation Number 79 Section 12 states "No name other than that approved by the Commissioner may be used. The name of the HMO may not be changed without prior approval of the Commissioner. Any name which is misleading as to the purpose or type of organization or which is deceptively similar to the name of another licensed HMO shall not be used by the HMO."

Rate Filings - Page 36

It is recommended that the Company file all rates in accordance with the ALA. ADMIN. CODE 482-1-079-.05(1987), which states "Rates must not be excessive, inadequate or unfairly discriminatory. Rates may not be changed without prior approval of the Commissioner and without thirty (30) days notice of the proposed change given to enrollees."

Accounts and Records - Page 37

It is recommended that the Company promptly notify the Alabama Insurance Commissioner of any address changes.

It is recommended that the Company maintain detailed records supporting the filed Annual Statements that can be readily available to examiners within ten business days in accordance with the ALA. ADMIN. CODE 482-1-118-.06(1999), which states "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed, assistant employee or examiner of the Commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay."

It is recommended that the Company assign an administrator of third party contracts (a CMO – Contract Manager Office) and that person should create and maintain records of all contracts, Service Level Agreements and Service Level Metric Review, and provide the records in a timely manner in accordance with the ALA. ADMIN. CODE 482-1-118-.06(1999), which states: "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the Commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay."

It is also recommended that complexity requirements be implemented at the Company.

<u>Accrued Medical Incentive Pool and Bonus Payments – Page 49</u>

It is recommended that the Company create a contract for the fee for service PCPs.

<u>Mental Health Benefits – Page 34 and 50</u>

It is recommended that the Company not impose limits on mental health benefits that are not imposed on medical and surgical services in compliance with ALA. CODE § 27-54-4(b)(1)(1975), which stipulates that: "The group health benefit plan shall offer to provide benefits for the treatment and diagnosis of mental illnesses under terms and conditions that are no less extensive than the benefits provided for medical treatment for physical illness."

CONCLUSION

The customary insurance examination procedures as recommended by the National Association of Insurance Commissioners have been followed to the extent appropriate and possible in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Gwen J. Douglas, CFE, CIE, Ilona Klasons, CFE, CIE, and Jenny Jeffers, CISA, AES, IS Specialist, as representatives of the consulting firm, Examination Resources, LLC and Harland Dyer, MAAA, Consulting Actuarial Examiner, all representing the Alabama Department of Insurance, participated in this examination of United HealthCare of Alabama, Inc.

Respectfully submitted,

Rebecca Belanger-Walkins

Rebecca J. Belanger-Walkins, CFE
Examiner-In-Charge
Representing the State of Alabama Department of Insurance

June 7, 2006